Saskatchewan Auto Fund
2004 ANNUAL REPORT

SGI 04

SGI VISION:

As a Saskatchewan based insurance company we will set the industry standard for being highly valued by our customers.

SGI VALUES:

INTEGRITY:
Conducting ourselves with honesty, trust and fairness

CARING:
Acting with empathy, courtesy and respect.

INNOVATION:
Implementing creative solutions to achieve our vision.

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SGI BOARD OF DIRECTORS

clockwise from top left:

Dale Bloom
– Corporate Secretary, Crown Investments Corporation, Regina, SK

Nancy E. Hopkins (*Chair*)
– Lawyer, McDougall Gauley, Saskatoon, SK
Governance and Human Resources Committee
Audit and Finance Committee
Investment and Legislation Review Committee

J. Walter Bardua (*Vice Chair*)
– Retired Insurance Professional, Nanaimo, BC
Governance and Human Resources Committee

Joan F.D. Baldwin
– Doctor, Regina, SK
Audit and Finance Committee

Robert Fenwick
– Retired Insurance Professional, Markinch, SK
Governance and Human Resources Committee

Kendra Chesney
– Information Technology Analyst, SGI, Regina, SK
Investment and Legislation Review Committee

Merin Coutts
– Regional Sales Manager, Shaw Cable Systems G.P., Saskatoon, SK
Audit and Finance Committee

Arleen Hynd
– Retired Chartered Accountant, Regina, SK
Governance and Human Resources Committee
Audit and Finance Committee

W.J.A. (Bill) Heidt
– Retired Insurance Professional, Kelowna, BC
Investment and Legislation Review Committee

Joan D. Bellegarde
– Executive Director, File Hills Qu'Appelle Tribal Council, Fort Qu'Appelle, SK
Investment and Legislation Review Committee

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VICE PRESIDENTS

Cheryl Barber
Human Resources

Earl Cameron
Claims and Salvage

John Dobie
Canadian Operations

Randy Heise
Underwriting

Don Thompson
Finance and Administration

Dwain Wells
Systems

Sherry Wolf
Auto Fund

SENIOR MANAGEMENT

Doug Campbell
Assistant Vice President
Injury Claims & Rehabilitation

Anna Lapierre
Assistant Vice President
Licensing & Underwriting Services

Bob Lundy
Assistant Vice President
Claims Urban

Maureen MacCuish
Assistant Vice President
Communications

Penny McCune
Assistant Vice President
Rating & Strategic Planning

Bernadette McIntyre
Assistant Vice President
Driver & Vehicle Safety Services

Lyle Mosiondz
Assistant Vice President
Claims Rural & Support Services

Brian Munro
Assistant Vice President
Corporate Controller

Grace Parsons
Assistant Vice President
Commercial Lines

Don Phillips
Assistant Vice President
Legal

Lorne Whippler
Assistant Vice President
Personal Lines

Cara Low
Corporate Actuary

Andrea Malyon
Corporate Actuary

Betty Weigel
Government and
Corporate Affairs

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March, 2005

To Her Honour,
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of the Saskatchewan Auto Fund for the year ended December 31, 2004, including the financial statements in the form required by the Treasury Board and in accordance with *The Automobile Accident Insurance Act*.

I have the Honour to be, Madam,
Your obedient Servant,

Maynard Sonntag

Honourable Maynard Sonntag
Minister Responsible for Saskatchewan Government Insurance

President's Message

In 2004, SGI continued to provide our customers with innovative and stable products and services, while maintaining the lowest auto insurance rates in the country.

SGI enjoyed a very strong year financially by posting a $125 million surplus in 2004, resulting in a $140 million balance in the Rate Stabilization Reserve (RSR) at year-end.

In spring 2004, the Auto Fund's financial picture didn't look as bright. Based on external actuarial estimates of claim costs that forecast a small profit for 2004 and a $14 million loss in 2005, SGI submitted a rate increase proposal to the Saskatchewan Rate Review Panel. However, the rate proposal was withdrawn following new financial information.

A new external actuarial estimate resulting in an $80 million reduction of prior years claim liabilities, coupled with increased investment earnings and lower than average summer storm damage claims, has put the Auto Fund in a much improved financial position.

With no rate increases since 2000, and more than doubling the Safe Driver Recognition and Business Recognition discounts in 2005, SGI continues to deliver on its mandate of offering quality insurance products at the lowest possible price to our customers.

Thanks to the contribution of SGI's employees, brokers and licence issuers this past year was filled with the introduction of new and innovative customer service initiatives, such as the Business Recognition program, simplifying the vehicle registration system, a single licence plate system, the Deductible Payment Plan, the Auto eClaim registration service and a special licence plate for Saskatchewan war veterans.

All of these new initiatives, some of them firsts in North America, respond directly to the requests of our customers and provide better value from the Auto Fund.

SGI also provides value as a national leader in traffic safety with initiatives focusing on seat belt use, new drivers, intersection safety and reducing the incidents of drinking and driving. In 2004, we also strengthened our relationship with Saskatchewan's north by reaching out to Aboriginal communities with discussions and programs dealing with traffic safety and injury prevention.

However, too many people are still being injured in traffic collisions in Saskatchewan. We will continue to focus our traffic safety efforts on lowering injury and collision rates.

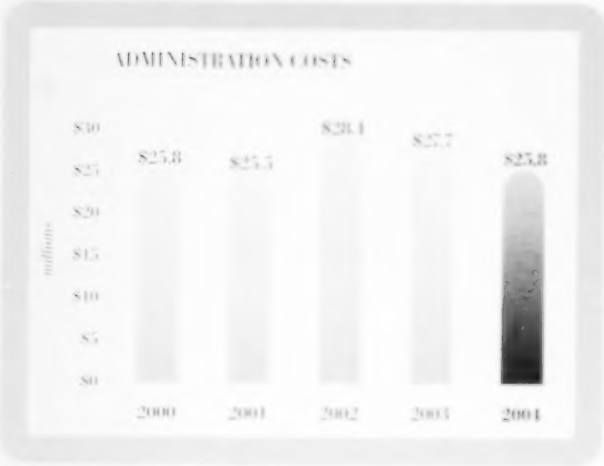
After many years, SGI has a balance in the RSR that will meet future policyholder obligations and cover the cost of a catastrophic injury claim. The balance in the RSR was built up over a number of years, but was only recognized this year with the latest valuation of claims liabilities by the external actuary.

As a result, SGI must ensure the future rates that customers pay are adequate to maintain an appropriate balance in the RSR. SGI will work hard to keep rates as low as possible, improve fairness in individual rates and provide better service to our customers. SGI also must continue to foster a spirit of innovation and serve our customers with solid and responsible management, while always looking for new and creative solutions for our customers.

Jon Schubert
President and CEO

2004 IN REVIEW

The Auto Fund posted a $125 million surplus in 2004, which will be added to the Rate Stabilization Reserve (RSR). The RSR now carries a positive balance of $140 million.



SGI's strong financial showing in 2004 is due in large part to the external actuary's lowered estimate of unpaid claims from prior years, which accounts for $80 million of this year's surplus. Also having an impact on the Auto Fund's financial results were increased investment earnings and lower than average summer storm damage claims. The number of claims reported is as volatile and apt to change as Saskatchewan's weather. The province enjoyed a very calm winter and summer, which resulted in fewer claims.

Supporting the financial success of the Auto Fund is SGI's continued tradition of low administration costs.

RISING CLAIM COSTS

While SGI continues to offer low rates, we do face a challenge. Claim costs represent over 85 per cent of the Auto Fund's costs each year. Over the last 10 years, damage claim costs have increased at an average annual rate of 4.1 per cent, while personal injury has grown at approximately 2.4 per cent.

On the damage side, new and advanced technology means vehicles are more expensive to repair. New vehicles also cost more to repair than older vehicles and parts prices and labour rates continue to rise. As a result, claim costs continue to climb as repair costs outpace inflation.

Injury costs also rise on a yearly basis as no fault injury benefits are indexed each year. As well, tort and out-of-province liability claims, which are generally based on court awards, increase at a rate significantly higher than inflation.

Since claim costs can be expected to grow each year, and because they represent the majority of costs for the Auto Fund, revenue must increase to offset these costs.

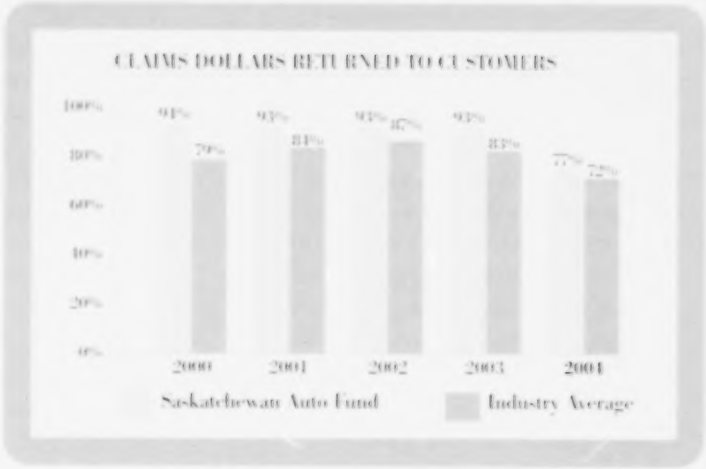
Due to favourable weather in 2004 and a reduced estimate of claim liabilities, costs were lower this past year. However, customers can't count on this good fortune in the future as claim costs are likely to rise.

RATES AND DOUBLING THE DISCOUNT

Saskatchewan customers continued to benefit from the lowest auto insurance rates in Canada in 2004.

Under the Safe Driver Recognition and Business Recognition programs, most Saskatchewan motorists pay even less. Since 2002, safe drivers in Saskatchewan have received almost $57 million in discounts. On Jan. 1, 2004, the maximum vehicle insurance discount provided under Safe Driver Recognition increased to nine per cent and on Jan. 1, 2005, the discounts under both programs will more than double.

In total, safe drivers will earn nearly $60 million in discounts in 2005, an increase of $34.3 million over 2004.



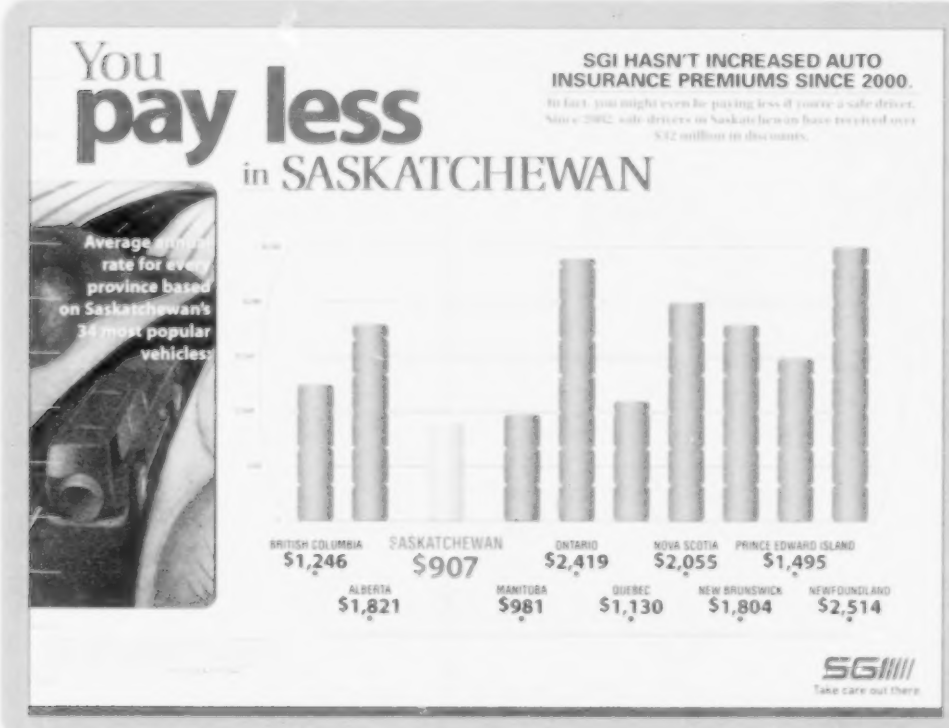
HOW DO WE KEEP OUR RATES LOW?

The Saskatchewan Auto Fund is an insurance program that operates on a break-even basis over time. That means, the Auto Fund does not need to generate a profit, so our customers pay less for auto insurance.

SGI needs a balance in the RSR for two main reasons: to meet policyholder obligations for policies already sold that expire after year-end; and to cover all claim costs in the case of a catastrophic event.

Another factor in our low rates is the Auto Fund's philosophy that all drivers should be treated equally unless their driving records show they are a greater risk for causing a collision. SGI doesn't use a driver's age, gender or where they live to determine insurance rates.

In dollars and cents, that helps SGI to have among the lowest administration costs of any insurance company in the country – again meaning our customers pay less. On average over the last five years, the Auto Fund has returned 90 cents of each premium dollar to customers in the form of claim payments and traffic safety programs.



Traffic safety – leading the nation

SGI is always looking at new and innovative ways to improve traffic safety in the province.

Over the years, SGI has evolved into a national leader in the area of road safety programs, education and legislation.

Whether it be spearheading programs like Enforcement Overdrive or drafting new legislation that gets tough on drinking drivers, SGI sets the industry standard when it comes to protecting people on the road.

Here's what other road safety advocates have to say about SGI's strong leadership:

"SGI is always willing to work on innovative pilot projects to reduce the number of alcohol related deaths and injuries on our roadways. Their staff are well informed and provide leadership to Canada's overall strategy to reduce road deaths and injuries."

– Andrew Murie,
CEO of Mothers Against Drunk Driving

"The Traffic Injury Research Foundation of Canada has a long-standing relationship with SGI, working cooperatively and effectively on road safety projects that have relevance not only to Saskatchewan but the country as a whole. SGI has made a notable contribution to road safety, consistently demonstrating their leadership and commitment."

– Dan Mayhew,
Senior Vice President of Traffic Injury Research Foundation

"RCMP Traffic Services' mission is to improve public safety on our roadways. Our vision is to have the safest roads in the world by the year 2010 through quality data collection, the dedicated application of problem solving, partnership building and enforcement and education strategies. We are only as strong as our partners and with SGI on our team we will not fail. SGI not only shares in our mission and vision, as our partners, they participate with us to effect positive change and save lives on Saskatchewan roadways."

– Brenda Lucki, Inspector, RCMP Traffic Services

"Our relationship with SGI is vital to our efforts to improve traffic safety in the City of Regina. SGI's financial support of engineering studies and on-street improvements provides obvious and tangible results in terms of safety. The close relationships we have with SGI personnel also support us in developing co-operative strategies to make Regina's streets safer for everyone."

– Kelly Wyatt, Senior Engineer, Traffic Safety, City of Regina

The specific safety issues that SGI focuses on are determined by ongoing reviews of traffic statistics. Most programs fall into five keys areas: **Impaired Driving, New Drivers, Seat Belt Use, High-Risk Drivers and Intersection Safety.**

Traffic Safety Priority Area	Targets	Program Results to Date (2004)
Impaired Driving	40% reduction in the proportion of fatal and injury accidents involving alcohol compared to average from 1996-2001.	13% average reduction from 2002 – 2004
New Drivers	10% reduction in number of crashes involving new drivers compared to the average at the start of the probationary driver's program in 1996	1.4% annual average increase since the implementation of the probationary driver's program in 1996
Seat Belt Use	Maintain Saskatchewan's ranking among top 3 provinces for seat belt use	5th place in Canada
High-Risk Drivers	Reduce at-fault accidents by 60 accidents per 100 drivers per year	Reduction of 81 accidents per 100 drivers in 2004
Intersection Safety	2:1 return on investment	Improved intersections have recorded a ratio over a 2 to 1 return on investment

TRAFFIC SAFETY – LEADING THE NATION

IMPAIRED DRIVING – LEGISLATIVE ENHANCEMENTS

Alcohol is the number one contributing factor in fatal crashes in Saskatchewan and is cited as a factor in four out of every 10 fatal crashes. To combat this serious issue, SGI has made legislative enhancements in recent years that make Saskatchewan one of the toughest provinces on impaired drivers.

In 2004, SGI introduced legislation that expands the "look back" window for defining multiple impaired driving offenders from five to 10 years by 2010. This is consistent with the definition proposed in Canada's National Strategy to Reduce Impaired Driving and toughens Saskatchewan's stance against drinking drivers.

Also, drivers who are issued 24-hour or 30-day roadside suspensions as a result of impaired driving, will now be deducted four points from their safety rating under Safe Driver Recognition.

SGI AND INTERSECTION SAFETY

Every year SGI partners with various levels of government to make dangerous intersections throughout the province safer.

In 2004, SGI provided funding to make safety improvements to the intersections at Lewvan Expressway and 4th Ave and Lewvan Expressway and Highway #1 in Regina.

Ten high-risk intersections have now been studied and improved under this program.

TRAFFIC SAFETY IN SASKATCHEWAN'S NORTH

SGI's Community Relations Coordinator, Jodie Hollihan has travelled to almost every corner of the province to educate people in Aboriginal communities about traffic safety and injury prevention. Her latest expedition in 2004 had her making a trip to the remote northern communities of Black Lake and Stony Rapids.

Jodie and Constable Doug Green of the Weyburn RCMP were invited by Terry Fryklund of Saskatchewan Learning to take part in the trip. Their ultimate goal was to educate people of the region about the particulars of traffic safety.

Jodie spent five and a half days in the two communities where she made presentations in the schools and met with members of both communities. In total, 65 people became licensed to drive during their visit and the communities began discussions on starting the Preventing Alcohol and Risk Related Trauma in Youth (PARTY) program which is supported by the RCMP.

Aside from educating local people about traffic safety, the trip was also significant because it represented a huge step forward in the ongoing relationship between SGI and the people in the North.

left to right: Community Relations Coordinator Jodie Hollihan, Constable Doug Green, and Terry Fryklund of Saskatchewan Learning.

TRAFFIC SAFETY – LEADING THE NATION

TRAFFIC SAFETY IN SASKATCHEWAN SCHOOLS

The driving force behind SGI's role as a national leader in road safety are the dedicated employees that work throughout the corporation.

One example of this dedication occurred shortly after a tragic accident involving a group of school children in Regina.

Feeling accidents like this could be prevented through education, Darla Schmidt, an employee in SGI's call centre and a trustee with the Sunrise School Division, approached SGI's traffic safety area to find out what type of presence the corporation had in the province's schools.

At the time, SGI had acquired a comprehensive set of road safety resource materials from Manitoba and was beginning work with Saskatchewan Learning to incorporate these materials into the province's classrooms.

Darla took the issue to the chair of her school board and succeeded in getting her board to bring forward a resolution at a meeting of the Saskatchewan School Trustees Association (SSTA). The resolution supported the Saskatchewan Learning and SGI partnership to introduce road safety resources into elementary schools. The resolution passed by an 83 per cent majority!

Thanks to Darla's efforts to speed up the process, SGI and Saskatchewan Learning will incorporate road safety resources into elementary schools starting next school year.

Darla Schmidt

A PART OF THE COMMUNITY

SGI serves the people of Saskatchewan by supporting various programs and services that address insurance issues such as traffic safety, crime prevention and rehabilitation programs.

SGI AND YOUTH SUMMER PROGRAMS

Throughout the province, many communities offer children and youth daily summer programs. These programs encourage children and youth to participate in activities that promote and lead to overall healthy lifestyle choices.

SGI is proud to be a part of the following community-based partnerships – EGADZ Saskatoon Downtown Youth Centre, Fort Qu'Appelle Skate Park Program, Sofia House Summer Program, Summer Y's YMCA Program, Ultimate GAP Youth Program and Warman Partnership for Youth.

These summer initiatives directly benefit their communities as effective crime prevention programs. Some programs also include positive interaction with community members such as local law enforcement officers, fire personnel and emergency medical personnel.

SGI is also proud of the work performed by the SGI Safety Squad. Created in 2001 and made up of Saskatchewan youth, the Safety Squad travels the province during the summer months and uses activities and games to educate children and young adults about safety issues.

SGI AND SASKATCHEWAN UNIVERSITIES

SGI was on campus in 2001 at the University of Regina (U of R) and University of Saskatchewan (U of S) in order to remind young people how important it is to plan ahead for a designated driver.

At the U of R, SGI was in thousands of book bags with a safety message in the student agenda. SGI also has a presence in the new gymnasium for basketball and volleyball games promoting our drinking and driving messages.

At the U of S, SGI assisted the local student union with their T.R.I.P. (Take Responsibility for Intoxicated Passengers) program. This program runs at university events and rewards a lucky designated driver with a free vacation.

The U of S Student Health Centre and Student Health Initiative Program are also handing out drinking and driving reminder cards with a quarter glued on as a reminder that a safe ride is only a phone call away.

SGI values higher education and recognizes that post-secondary education is important and often essential for today's youth. That's why SGI provides various scholarship programs for Saskatchewan students who are studying in a field related to SGI business.

A PART OF THE COMMUNITY

ENFORCEMENT OVERDRIVE

The Enforcement Overdrive program allows police to hold additional roadside check stops for impaired driving, with SGI funding the increased staffing costs.

The program began in Regina in 2001 with Saskatoon joining in 2002 and Prince Albert joining in 2003. Each year the program results in thousands of vehicles checked and hundreds of additional drinking drivers taken off the road.

SGI AND THE SASKATCHEWAN ROUGHRIDER'S DESIGNATED DRIVER PROGRAM

SGI and the Saskatchewan Roughriders teamed up to bring a brand new program to Taylor Field at each home game in 2004.

The Designated Driver program encouraged Rider fans to "Always Plan a Safe Ride Home." To assist with that plan, SGI had booths set up at the stadium where fans could register themselves as designated drivers, promise not to drink alcohol and drive their friends and family home safely.

Every person who registered at the booths was automatically entered into the grand prize draw for a trip for two to the Grey Cup in Ottawa.

By simply deciding to not drink and drive during Rider games throughout the season, Regina resident Mike Nakonechny won a trip to the nation's capital, and more importantly, was able to offer his friends a safe ride home after Rider games.

SGI is tentatively planning to run this same contest in 2005 and we hope to have the same commitment from Canada's greatest football fans.

SGI also supports other designated driver programs at events throughout the province including the Ness Creek Folk Festival, the Premier Festival in Saskatoon and the Folkfest in Regina and Saskatoon.

CUSTOMER SERVICE: SGI'S INNOVATIVE SPIRIT

Listening and responding to our customers is what sets SGI apart in the insurance industry.

Instead of relying on initiatives from the past, SGI is constantly looking at new ways to offer value to our customers. Whether it's rewarding safe drivers with auto insurance discounts or offering a choice in injury insurance, SGI is listening and acting on the requests of its customers.

SGI's innovative spirit can be found in numerous customer service initiatives that were introduced in 2004.

BUSINESS RECOGNITION

Introduced in early 2004, the Business Recognition program rewards businesses that consistently drive safely with discounts on their vehicle insurance.

During the first 12 months of the program, SGI put back $2.8 million into the pockets of 70,000 Saskatchewan business owners.

As of Jan. 1, 2005, the maximum discount available will more than double to 10 per cent.

THE DEDUCTIBLE PAYMENT PLAN

On June 1, 2004, customers with vehicles registered in classes IV, PV or F were given the option to finance the payment of their deductible.

SGI introduced the Deductible Payment Plan to allow customers with basic auto insurance to repair their vehicle immediately after it is damaged, then pay off the deductible over a period of 10 months.

This is the first program of its kind in North America.

INTRODUCTION OF A SINGLE LICENCE PLATE

In June 2004, SGI introduced a single licence plate system in Saskatchewan.

The change to a single plate was in response to requests from our customers and will save SGI about $370,000 a year. These savings will help SGI maintain the lowest auto insurance rates in the country.

Alberta, Quebec, Newfoundland, Nova Scotia, Prince Edward Island and the three territories use single licence plates.

SIMPLIFYING THE VEHICLE REGISTRATION SYSTEM

SGI began updating the vehicle registration system in July 2004, making it more fair and balanced for all motorists. Changes to simplify the system were started in 2004 and will be complete in summer 2005. It will include amalgamation of five different vehicle classes into the new class IV.

CUSTOMER SERVICE: SGI'S INNOVATIVE SPIRIT

VETERAN LICENCE PLATE

A special legal issue licence plate to honour veterans' contributions and service to Canada was unveiled in November 2004.

The special Veterans plate is available to all Saskatchewan veterans who served during wartime or in a post-war capacity. The new licence plates became available to veterans in February 2005.

eCLAIM REGISTRATION SERVICE

Launched in December 2004, SGI's eClaim registration service is a fast and easy way to file an auto claim and book a vehicle damage appraisal appointment online at www.sgi.sk.ca.

SGI plans to offer more electronic customer service initiatives in the future.

SGI AND THE SASKATCHEWAN TRUCKING INDUSTRY: PARTNERS IN MOTION

In January of 2004, the Saskatchewan Trucking Association (STA), in conjunction with the Immigration Branch of Saskatchewan Industry and Resources, Human Resources and Skills Development Canada (HRSDC) and Citizenship and Immigration Canada (CIC), undertook a pilot project to address the need for long haul truck drivers in Saskatchewan.

Under the STA Long Haul Pilot Project, truck drivers were brought in from the United Kingdom and began working in Saskatchewan on a temporary work status until they were nominated for permanent landed immigrant status.

The innovative project was the first of its kind in Canada and it led to Saskatchewan being recognized nationally for its efforts.

From the outset it was clear that SGI would play a critical part in the pilot program. SGI immediately began working with and assisting the transport companies by preparing these new drivers to become fully authorized and up to standard in Saskatchewan.

SGI staff members from across the province rose to the occasion and embraced the idea wholeheartedly. The transport companies invested a substantial amount of money to bring truck drivers over from the UK and SGI was more than willing to accommodate the extra testing sessions even during one of its busiest times.

The unique and strong partnership that developed between SGI, provincial trucking companies and the province's newest long haul truck drivers, is just another example of SGI's commitment to being highly valued by its customers.

2005 OUTLOOK

SGI will continue to lead the country in traffic safety programs, education and legislation with a strong focus on Saskatchewan's youth and Aboriginal population. We plan to continue listening and responding to our customer's concerns by introducing innovative and creative initiatives.

Safe drivers in Saskatchewan will continue to be rewarded, as discounts will more than double on Jan. 1, 2005.

SGI has made a commitment to continue offering the lowest insurance rates in the country. At the same time, we must ensure that the rates are sufficient to meet the growing cost of claims and keep the Auto Fund financially stable.

BALANCED SCORECARD

The Saskatchewan Auto Fund is a compulsory provincial vehicle insurance program administered by SGI. The Auto Fund provides vehicle registrations, driver's licences and related services to 850,000 vehicles and 635,000 drivers.

The Auto Fund is operated on a break-even basis over time. SGI acts as the administrator of the Fund on behalf of the Province of Saskatchewan.

SGI employs about 1,600 people, operates 21 claims centres and five salvage centres in 13 communities across the province. The Fund has developed a set of short-term and long-term objectives and targets that make up our Balanced Scorecard.

The Auto Fund exceeded its financial target, largely due to the external actuary's lowered estimate of claim liabilities from prior years, which accounts for $80 million of this year's surplus. Also having an impact on the Auto Fund's financial results were increased investment earnings and lower than average summer storm damage claims.

In the public policy category, SGI met or exceeded its targets for reducing injuries and fatalities in motor vehicle crashes. SGI continued to exceed the target for women in under-represented roles, aboriginal and visible minority areas.

SGI also exceeded its key target in the learning and innovation category as almost all front-line employees have now received specialized customer service training.

The Auto Fund's performance is measured against the following key objectives:

	Strategic Objective	Strategic Measurement	2004 Target	2004 Actual
Financial	Maintain an adequate Rate Stabilization Reserve (RSR)	RSR balance equal to 17% of claims incurred	$28M deficit	$140.1M surplus
Customer Service	Deliver lowest average rates in Canada	SGI cross-Canada comparison	1st or 2nd lowest average private vehicle rates in Canada	Lowest in Canada
	Claims customer satisfaction	Claims customer service survey	91%	90%
Learning and Innovation	Improve business effectiveness through corporate training	Front-line staff receiving specialized service training	75% of staff trained	93% of staff have received training
Public Policy	Economic diversification and growth	Per cent of dollars spent in Saskatchewan	90%	71%
	Reduce fatalities and serious injuries due to motor vehicle crashes	Reduction in the 1996-2001 average number of fatalities of 158	10%	13.8%
		Reduction in the 1996-2001 average number of serious injuries of 667	10%	14.7%
	Representative workforce	Women in under represented categories	47%	49.4%
		Aboriginal	8.2%	9%
		People with disabilities	8.2%	7.2%
		Visible minorities	3.1%	3.2%

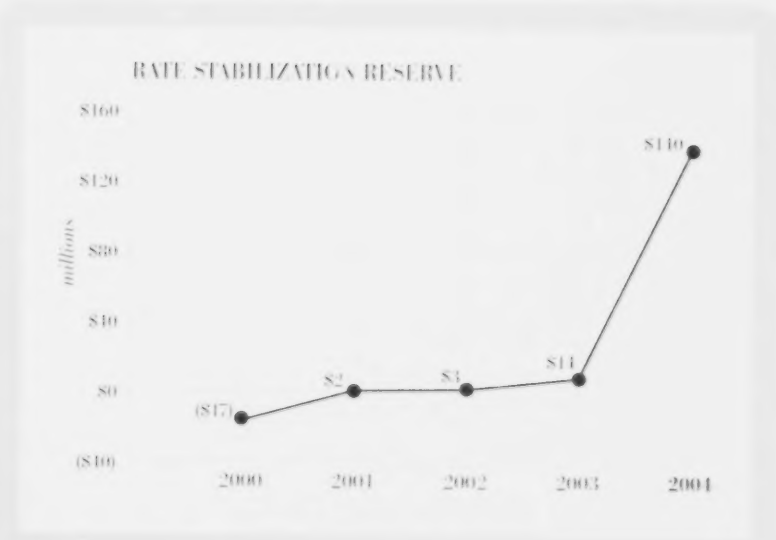
MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

This report focuses on the financial position and operating results of the Saskatchewan Auto Fund (the Auto Fund). The information in this section should be read in conjunction with the Auto Fund's financial statements and accompanying notes.

The Saskatchewan Auto Fund is the compulsory automobile insurance program administered by SGI on behalf of the people of Saskatchewan. The Auto Fund provides vehicle registrations, driver's licences and related services to all Saskatchewan motorists. The Auto Fund operates on a break-even basis over time, and neither receives money from, nor pays annual dividends to the provincial government.

The Auto Fund provides coverage for damage to or loss of an insured's vehicle, subject to a deductible, as well as up to $200,000 liability for property damage and/or injuries caused to another person. The Auto Fund also provides all Saskatchewan residents with personal auto injury coverage and an option to choose between a No Fault or Tort product.



2004 OVERVIEW

The Auto Fund recorded a surplus in 2004 of $125.3 million (2003 – $11.5 million), increasing the balance in the Rate Stabilization Reserve (RSR) to $140.1 million.

The surplus realized in 2004 is the largest ever recorded by the Auto Fund and is significantly higher than was anticipated last year, when a loss was forecast. There are several factors that have contributed to the better than anticipated results: a reduction in the external actuary's estimated cost of prior year injury claims of $79 million and the resulting impact on current year injury claims, lower damage claims related to fewer summer storms and improved investment earnings.

The large surplus in 2004 has allowed the Auto Fund to move forward with its plan to more than double the discounts under the Safe Driver Recognition and Business Recognition programs in 2005. This significant enhancement to these programs has been done while, at the same time, maintaining base rates at the same level.

ACTUAL VERSUS LAST YEAR

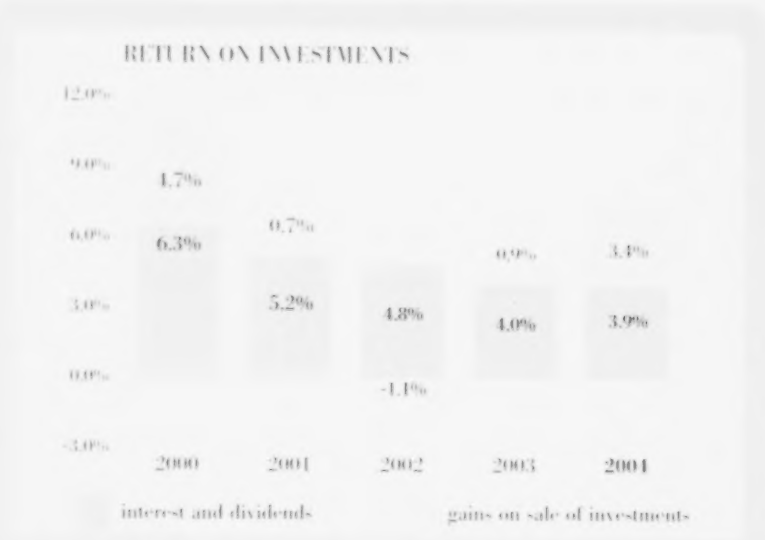
Revenues

Net premiums written during 2004 totaled $525.1 million, an increase of $33.5 million or 6.8% greater than 2003 net premiums written. The increase is due mainly to a newer vehicle population that costs more to insure, combined with growth of 1.4% in the number of insured vehicles. The following table highlights the growth in insured vehicles for the last five years.

	2004	2003	2002	2001	2000
Insured Vehicles (#)	862,853	850,996	835,661	823,289	825,389
Growth	1.4%	1.8%	1.5%	-1.5%	.2%

The Auto Fund has not implemented a general rate increase since 2000 and continues to decrease rates for safe drivers through the Safe Driver Recognition program. Safe Driver Recognition places all drivers on a safety rating scale based on driving history. The initial maximum discount of 7% has increased annually by 1% to a maximum of 9% in 2004. The cost of these discounts in 2004 was $25.0 million (2003 – $22.2 million), which is equivalent to a rate decrease of 4.8%.

Investment revenue of $63.2 million is significantly higher than last year's revenue of $39.1 million. The rate of return on the portfolio in 2004 was 7.3%, compared to only 4.9% in 2003. The improvement is a result of a substantial increase in the return from gains realized on the sale of investments. Interest and dividend returns have not changed substantially from 2003, consistent with continuing low market interest rates.



Other income consists of fees charged to insureds for utilizing the AutoPay and Short-Term payment option programs, as well as net income from the Salvage division.

Vehicle owners who choose AutoPay or Short-Term payment options are charged a fee to cover administration costs and lost investment income. These fees generated $14.9 million in revenue in 2004 (2003 – $13.1 million).

The Auto Fund operates a Salvage division with branches in five communities in Saskatchewan. SGI Salvage reduces the Auto Fund's claim costs by selling recycled automobile parts and whole vehicles from total loss claims. Net income in 2004 is $6.8 million, compared to $5.7 million in 2003.

Claims

In 2004, claims incurred totaled $392.7 million, a decrease of $59.1 million or 13.1% from 2003. The following table provides the breakdown of this variance.

CLAIMS EXPENSE (000's $)

	2004	2003	Increase/ (Decrease)
Injury claims (current year)	$185,387	$200,650	$ (15,263)
Damage claims (current year)	283,527	292,107	(8,580)
Pre-1995 injury claims	4,021	619	3,402
Injury prior year redundancy	(79,110)	(43,051)	(36,059)
Damage prior year (redundancy)/deficiency	(1,136)	1,437	(2,573)
Total claims expense	$392,689	$451,762	$ (59,073)

The largest variance is from a reduction in prior year injury claims, which totaled $79.1 million in 2004, compared to $43.1 million in 2003. With the assistance of an external actuary, the Auto Fund makes provisions for future payments on existing claims and an estimate for claims that have occurred but have not yet been reported. At the end of each year, the actuary recalculates the estimate of the ultimate costs for prior years (along with an estimate for the current year). If the actuary reduces the estimate for prior years, a "redundancy" exists, resulting in a reduction in claim costs for the year. If the reverse is true and the actuary increases the estimate for prior years, a "deficiency" exists, resulting in an increase in claim costs for the year.

As can be seen from the table, the external actuary's estimates have been too high the past two years resulting in redundancies, which has had a positive impact on profitability. In calculating the ultimate loss estimates, the actuary uses historical data to determine what the ultimate cost of a particular loss year will be. With the implementation of the No Fault injury program in 1995 the actuary had no historical data on which to rely. With the ultimate costs much more difficult to estimate, the external actuary provided a conservative estimate of ultimate losses. While the program is still relatively new, considering some people will be receiving benefits for the rest of their lives, the actuary now has 10 years of data on which to base his estimates. This expanded data has shown that the ultimate loss estimates have been overly conservative and have been reduced accordingly.

The current year injury claim costs of $185.4 million are $15.3 million or 7.6% less than 2003. Because loss development has been lower than expected on prior years, the estimates for all accident years, including the current year have been lowered. The result is a reduction in the ultimate losses expected for 2004 because of a reduction in the expected long-term development of claims.

Damage claim costs in 2004 of $283.5 million are $8.6 million lower than last year or a decline of 2.9%. The decline is due to lower claim costs related to summer storm activity. 2004 was the only year in the last 10 that damage claims have decreased from year to year, with the exception of 1998 when the deductible changed from $500 to $700. Generally, damage claims rise each year as the fleet of vehicles are newer and are equipped with newer safety technology that costs more to repair. As well, the autobody labour rate generally rises each year at or near the rate of inflation, also causing damage claim costs to increase.

Expenses

The Auto Fund's expenses excluding claim costs totaled $79.1 million in 2004, a 1.4% increase over 2003's total of $78.0 million.

Fees paid to independent licence issuers to deliver the Auto Fund's products rose from $16.9 million in 2003 to $18.1 million in 2004. The rise is due to an increase in vehicle transaction remuneration paid to licence issuers. This increase is partially reduced by fewer digitized photo transactions, as the requirement to obtain digitized photo identification became mandatory in 2003.

Premium taxes, which are 5% of premiums, increased by $1.1 million in 2004 commensurate with the growth in premiums.

Administrative expenses in 2004 of $25.8 million are $1.9 million or 6.9% lower than 2003. The decline is in part due to lower information technology related costs, lower expenditures for building maintenance and repair projects and savings in licence plate costs with the movement to a single licence plate in 2004. Total administrative expenses were 5.0% of premiums in 2004, less than half of the insurance industry average.

Traffic safety program spending increased by $405,000 to $9.5 million, representing 1.8% of premiums, compared to 1.9% in 2003. Over the last several years, the Auto Fund has gradually been moving towards a target of spending 2% of each premium dollar on traffic safety programs. Our investment in these programs is monitored against targets. If the initiatives are not having the desired impact, changes are made to ensure these investments are working to reduce the frequency and severity of traffic accidents.

2004 LOSS YEAR	($000)
Premiums earned	512,369
2004 loss year claim costs*	472,935
Other expenses	79,102
Total claims and expenses	552,037
Underwriting loss	(39,668)
Investment earnings	63,244
Other income	21,523
Net surplus	45,099

*Estimated costs for claims occuring in 2004

2004 LOSS YEAR

While the profit in 2004 was significant, to a large extent the profit was a result of a reduction in the estimate of prior year claim costs (redundancy). In order to determine the appropriate price for the insurance product going forward, it is important to review the financial results for the current year only and ignore the prior year development. The loss year statement for 2004 shows that the Auto Fund experienced a $39.7 million underwriting loss after adjusting for the prior year redundancy.

ACTUAL VERSUS BUDGET

The Auto Fund prepares an annual budget each fall for the upcoming fiscal year. The plan is developed using long-term averages combined with known and expected information for the upcoming year.

The Auto Fund's 2004 budget, developed in the fall of 2003, anticipated a loss of $119.8 million in 2004. The Auto Fund actually recorded a surplus for the year of $125.3 million, a difference of over $145 million. Most revenue and expense categories were close to forecast with the exception of the Auto Fund's most volatile categories, claims incurred and investment earnings.

Claim costs were $121.1 million lower than expected due to a change in the actuary's estimate of the cost of prior year claims of $79.1 million. (The budget does not include an estimate for a change in the actuary's estimate of prior year costs, therefore, this redundancy results in a variance to budget.) This large decrease in prior year claim costs results in a reduction in the estimated current year claim costs, which were $29 million lower than expected. Damage claims are also $15 million lower than budget due to fewer claims than anticipated.

The investment portfolio provided earnings of $63.2 million, $19.0 million more than expected earnings of $44.2 million. The budget anticipated a 5.3% return on the portfolio compared to the actual return of 7.3%. This difference is due mainly to gains realized on the sale of investments being $21.9 million more than expected (net of writedowns). As the five-year graph on investment earnings illustrates, gains on the sale of investments are highly volatile. In the five-year period, they have been as high as 4.7% and as low as negative 1.1%.

LIQUIDITY

The Auto Fund purchases reinsurance to protect against major catastrophes adversely affecting the RSR. Given the large RSR balance and the conservative nature of the investment portfolio, the Auto Fund is confident that it can meet all its liabilities as they become due.

RISK MANAGEMENT

Corporate risk management is a dynamic process. The Auto Fund has identified potential risks the Auto Fund faces. These risks are evaluated as to consequence, severity and likelihood and then analyzed to determine what mitigating steps are necessary to reduce the inherent risk. Mitigating strategies have been implemented to reduce to acceptable levels those risks with significant impact to the Auto Fund or a high likelihood of occurring. This in-depth risk assessment is conducted on a semi-annual basis and presented to the Audit Committee of the Board of Directors.

The following issues and risks, among others, are considered when evaluating the Auto Fund:

Privacy Management Program

The implementation of privacy legislation has led to the development of a privacy management framework within the Auto Fund. The framework calls for a staged action plan to meet legislative requirements imposed by *The Freedom of Information and Protection of Privacy Act* and other privacy legislation. It will ensure that policies and practices are in place to protect privacy and personal information.

Business Interruption

The Auto Fund has developed a business continuity plan to ensure that essential services for customers are maintained. The plan includes an alternate computing services site that houses servers for the Auto Fund's major applications. It can be instantly activated and accommodates short-term disruptions.

Catastrophe Exposure

The Auto Fund is exposed to losses arising from catastrophic events. With the Auto Fund insuring all vehicles in the province, it is susceptible to large losses from major storms in Saskatchewan. To limit this risk it purchases catastrophe reinsurance protection, which reduces the potential impact from major losses as a result of catastrophic events.

Provision for Unpaid Claims

The Auto Fund maintains a provision for unpaid claims to cover its liability for future payments on these claims. The provision includes an estimate for future development on reported claims, and an estimate for claims that have not yet been reported. These provisions are estimates, and the ultimate payment on these claims will differ somewhat from the estimate. The Auto Fund faces the risk that the ultimate payment on these claims will be materially different than the established provision.

Investment Returns

Investment earnings are used to reduce rates for vehicle owners in Saskatchewan. In 2004, investment earnings represented 10% of total revenues for the Auto Fund, compared to only 7% in 2003. These earnings can fluctuate significantly from year to year based on returns from capital markets over which the Auto Fund has little control. To mitigate these fluctuations, the Auto Fund maintains a well-diversified investment portfolio.

The investment manager follows the guidelines established in the Investment Policy and Objectives, which provides the manager with a guideline for the quality, quantity, and rate of return standards for the portfolio. The Investment Policy and Objectives for the fund manager are reviewed annually by management and approved by the Board of Directors. The investment manager produces quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Investment Committee of the Board of Directors. As well, the Auto Fund utilizes the services of an investment consultant to independently review and report on the performance of the investment manager.

Foreign currency exposure arises from the Auto Fund holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against foreign currencies result in a positive or negative effect on the fair value of investments. The Auto Fund manages the foreign currency risk by limiting its holdings of foreign investments to a maximum of 14% of the market value of the entire investment portfolio.

The Auto Fund invests in publicly traded equities and bonds available on domestic and foreign exchanges. Market changes and fluctuations affect these securities. The market risk is managed by investing in different domestic and foreign markets, and through the establishment and review of asset mix ranges and limits for various investments. The Auto Fund does not use derivative financial instruments to alter the effects of these market changes and fluctuations.

OUTLOOK

After many years, the Rate Stabilization Reserve is enough to meet future policyholder obligations and cover the cost of a catastrophic injury claim. The balance built up over a number of years, but was only recognized this year with the latest revaluation of claims liabilities by the Auto Fund's external actuary.

The Auto Fund must take care to ensure the future rates that customers pay are adequate to maintain an appropriate balance in the Rate Stabilization Reserve. As always, the Auto Fund continues to balance improvement of products and services that benefit customers while maintaining a strong and financially viable program that offers the lowest insurance rates in Canada.

CORPORATE GOVERNANCE

AUTHORITY (SASKATCHEWAN AUTO FUND):

The Saskatchewan Auto Fund is a compulsory provincial vehicle insurance program administered by SGI pursuant to the powers granted to SGI under the *Saskatchewan Government Insurance Act*, 1980, and the *Automobile Accident Insurance Act*. The SGI Board of Directors oversees the administration of the Auto Fund and holds management accountable for the Auto Fund's performance. Through the Chair, the Board of Directors is accountable to the Minister responsible for Saskatchewan Government Insurance, who functions as a link between the Corporation and Crown Investments Corporation and Cabinet, as well as the provincial legislature.

COMMITTEES:

The Board of Directors has established the following committees to assist in the discharging of its responsibilities:

- Audit and Finance Committee
- Investment and Legislative Review Committee
- Governance Committee
- Human Resources Committee

TSE GOVERNANCE GUIDELINES

1) The board should explicitly assume responsibility for the stewardship of the corporation, specifically for:

a) adoption of a strategic planning process;

SGI has a comprehensive annual strategic planning process. Senior management of the Corporation undergo a process of long-term planning on an annual basis as a preliminary step in the preparation for the Board and Executive planning conference. The Board participates in the development and approval of the final version of the strategic plan which reviews the long-term risks the Corporation may face, as well as opportunities the Corporation should investigate or pursue.

b) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;

The Board has delegated to the Audit and Finance Committee the responsibility for review and assessment of the nature and extent of the risks facing the Company. The Committee determines the likelihood of the risks materializing. Through this review, the Committee addresses the risks acceptable to the Corporation and, for those that are not acceptable, ensures systems are in place to manage them. On an annual basis, the Committee reports to the Board the results of the review with any recommendations as appropriate.

c) succession planning, including appointing, training and monitoring senior management;

The Board has delegated to the Human Resources Committee the responsibility to review the Corporation's succession planning strategy with the President and CEO on an annual basis. The Committee recommends to the Board a senior management succession plan.

d) a communication policy for the corporation; and

The Corporation has a formal, written communication policy, which has been approved by the Board of Directors. The policy defines the communication practices for the Corporation, confirms that these practices will be guided by the values defined by the Corporation and commits the Corporation to providing timely communication to staff, shareholders and customers.

e) the integrity of the corporation's internal control and management information systems.

The Board has delegated to the Audit and Finance Committee the responsibility to review annually the Corporation's internal control systems and report to the Board the results of the review.

2) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. (i.e. one who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interest of the corporation, other than interests and relationships arising from shareholding):

The SGI Board of Directors is constituted with a majority of unrelated directors. Kendra Chesney, SGI Information Technology Analyst, is the only related Board member.

Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors):

SGI is a statutory Crown corporation and, as such, it does not have any share capital.

3) The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director:

Nancy E. Hopkins, Chair:
Unrelated
Lawyer, McDougall Gauley

J. Walter Bardua, Vice Chair:
Unrelated
Retired Insurance Professional

Robert Fenwick: Unrelated
Retired Insurance Professional

Joan F.D. Baldwin: Unrelated
Doctor, Gardiner Park Clinic

Joan R. Bellegarde: Unrelated
Executive Director, File Hills Qu'Appelle Tribal Council

W.J.A. (Bill) Heidt: Unrelated
Retired Insurance Professional

Kendra Chesney: Related
Information Technology Analyst, SGI

Merin Coutts: Unrelated
Regional Sales Manager, Shaw Cable Systems G.P.

Arleen Hynd: Unrelated
Retired, Chartered Accountant

4) The board of directors of every corporation should appoint a committee of directors composed exclusively of outside directors, i.e. non-management, the majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

The Committee is comprised of four directors. They are all outside unrelated directors.

5) Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors:

The Governance Committee is charged with the responsibility of recommending to the Board of Directors a process for evaluating the performance of the Board and its members. The Committee is responsible for implementing the process and undertakes the evaluation on an annual basis.

6) Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board.

The Governance Committee is responsible for the implementation of an orientation program for new Board members and an ongoing education program for existing Board members. As well, Crown Investments Corporation (CIC) provides, on an annual basis, a comprehensive training program for all Crown Corporation directors.

7) Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

8) The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.

Crown Investments Corporation is mandated by legislation to set the remuneration for the SGI Board of Directors.

9) a) A committee should be generally composed of non-management directors;

The Board Committees are comprised entirely of outside directors.

b) The majority of committee members should be unrelated;

All directors appointed to the Committees are unrelated, with the exception of one member appointed to the Investment and Legislative Review Committee.

10) Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation's approach to governance issues. This committee would, among other things, be responsible for the corporation's response to these governance guidelines;

The Board has formed a Governance Committee, which is responsible for monitoring the governance of the Board and Committees of the Board. The Committee recommends governance issues to be discussed at the Board level.

11) a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO involving the definition of the limits to management's responsibilities;

The Board has approved Terms of Reference which describe its responsibilities. As well, the Governance Committee reviews, as required and at least annually, the duties and responsibilities of the Board and all Board committees and recommends to the Board any amendments as deemed necessary or advisable, including identification of committees to which management should report on specific issues.

b) The board should approve or develop the corporation's objectives which the CEO is responsible for meeting;

The CEO has a job description, which is reviewed by the Human Resources Committee. The CEO is responsible for meeting the targets outlined in the Corporate Balanced Scorecard against which he is evaluated on an annual basis. The CEO evaluation is undertaken by the Human Resources Committee, and reported to and approved by the Board.

12) Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management:

The Chair of the Board is an outside, unrelated director.

The Board of Directors holds an in camera session at the beginning of each meeting, during which time management is excused.

13) The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal control:

The Audit and Finance Committee is comprised entirely of outside, unrelated directors. The Committee includes a retired chartered accountant, a certified management accountant, and all members of the Committee are financially literate. The Committee has a Board-approved mandate, which is reviewed regularly by both the Audit Committee itself and the Governance Committee.

The Audit and Finance Committee meets at each meeting with both the external and internal auditors, during which time all management is excused.

The Committee's responsibilities include reviewing: the results of the external auditors' review of the Corporation's financial records; the plans and accomplishments of the internal auditor; and the reports of the internal and external auditors with respect to the Corporation's internal control systems. The Committee reports to the Board any matters which may remain unresolved.

14) The board of directors should implement a system, which enables an individual director to engage an outside adviser at the expense of the company in appropriate circumstances. The engagement of the outside adviser should be subject to the approval of an appropriate committee of the board.

As part of their constitution, the Board and its Committees have the authority to obtain the advice of outside experts in instances where they believe it is required, in order to properly discharge their obligations to the Corporation.

Responsibility for the financial statements

The financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Auto Fund) within reasonable limits of materiality.

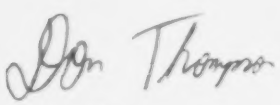
Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Auto Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Auto Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Auto Fund and the nature of the insurance policies. The actuary also makes use of management information provided by the Auto Fund and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance, administrator of the Auto Fund. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG LLP have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Auto Fund's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Jon Schubert
President
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund



Don Thompson
Vice President, Finance
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

February 23, 2005

Actuary's Report

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of the Saskatchewan Auto Fund for its statement of financial position at December 31, 2004 and their change in the statement of operations and rate stabilization reserve for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian Generally Accepted Accounting Principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Richard Gauthier
Fellow, Canadian Institute of Actuaries

February 23, 2005

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Saskatchewan Auto Fund as at December 31, 2004 and the statements of operations and rate stabilization reserve and cash flows for the year then ended. These financial statements are the responsibility of the management of Saskatchewan Government Insurance as administrators of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 23, 2005

STATEMENT OF FINANCIAL POSITION

December 31

	2004	2003
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 35,714	$ 42,039
Accounts receivable (note 4)	121,426	107,314
Deferred policy acquisition costs	16,353	15,285
Prepaid expenses and inventories	4,725	5,402
Investments (note 5)	882,645	775,416
Net investment in capital leases (note 6)	4,605	5,128
Property, plant and equipment (note 7)	38,609	39,924
	$1,104,077	$ 990,508
Liabilities		
Accounts payable and accrued charges	$ 13,960	$ 13,340
Premium taxes payable	26,359	24,683
Unearned premiums	239,209	226,623
Provision for unpaid claims (note 8)	685,318	711,510
	963,946	976,156
Rate Stabilization Reserve	140,131	14,352
	$1,104,077	$ 990,508

Commitments (note 14)

(see accompanying notes)

STATEMENT OF OPERATIONS AND RATE STABILIZATION RESERVE

December 31

	2004	2003
	(thousands of $)	
Gross premiums written	$ 527,182	$ 493,657
Net premiums written	$ 525,146	$ 491,630
Net premiums earned	**$ 512,369**	$ 483,386
Claims incurred	392,689	451,762
Issuer fees	18,111	16,943
Administrative expenses	25,802	27,701
Premium taxes	25,718	24,271
Traffic safety programs	9,471	9,066
Total claims and expenses	**471,791**	529,743
Underwriting profit (loss)	**40,578**	(46,357)
Investment earnings (note 9)	63,241	39,129
Other income (note 10)	21,523	18,756
Increase to Rate Stabilization Reserve	**125,345**	11,528
Rate Stabilization Reserve, beginning of year	14,352	2,824
Related party transaction (note 5)	434	–
Rate Stabilization Reserve, end of year	**$ 140,131**	$ 14,352

(see accompanying notes)

STATEMENT OF CASH FLOWS

December 31

	2004	2003
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net increase to Rate Stabilization Reserve	$ 125,345	$ 11,528
Non-cash items:		
Amortization	6,404	6,647
Realized gain on disposal of investments	(35,248)	(9,533)
Realized gain on disposal of property, plant and equipment	(687)	(7)
Income from equity investment	–	(60)
Investment write downs	5,306	2,701
Change in non-cash operating items (note 11)	(26,713)	48,561
	74,407	59,837
Investing activities		
Purchases of investments	(1,437,131)	(1,224,171)
Proceeds on sale of investments	1,356,699	1,185,436
Repayment of capital leases	523	561
Purchases of property, plant and equipment	(1,786)	(1,050)
Proceeds on disposal of property, plant and equipment	963	65
	(80,732)	(39,159)
Increase (decrease) in cash and cash equivalents	**(6,325)**	20,678
Cash and cash equivalents, beginning of year	42,039	21,361
Cash and cash equivalents, end of year	$ 35,714	$ 42,039

(see accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

1. STATUS OF THE AUTO FUND

The Saskatchewan Auto Fund (the Auto Fund) was established effective Jan. 1, 1984 by an amendment to *The Automobile Accident Insurance Act*. The Auto Fund is a compulsory vehicle insurance program providing vehicle registrations, driver's licences and related services for Saskatchewan drivers and vehicle owners. In addition to vehicle damage and property liability coverage, the Auto Fund also includes injury coverage that provides a choice between No Fault or Tort coverage.

The Auto Fund is a self-sustaining fund, with any annual excess or deficiencies recorded in the Rate Stabilization Reserve. The Rate Stabilization Reserve, which is administered by Saskatchewan Government Insurance, is held on behalf of Saskatchewan's motoring public.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Auto Fund are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Deferred policy acquisition costs

Premium taxes and issuer fees are deferred and then charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, common shares, pooled equity funds and income producing property are valued at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on their trade date.

The Auto Fund has a one-third interest in a real estate joint venture, which is accounted for using proportionate consolidation. The resulting income producing property is being amortized over its estimated useful life of 50 years on a straight-line basis. The other interests in this joint venture are SaskPen Properties Ltd. (SaskPen) and a private sector investor. SaskPen is a real estate corporation owned by Province of Saskatchewan employee pension plans.

Investments are written down when there is a decline in value that is other than temporary.

Capital leases

Investment earnings related to direct financing leases are recognized in a manner that produces a constant rate of return on the investment in each lease. The net investment in leases is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Buildings and improvements	2 1/2 - 5%
Computer hardware, system costs and other equipment	20 - 50%

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Foreign currency translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at the year end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and treasury bills with a maturity of 90 days or less from the date of acquisition.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the provision for unpaid claims (note 8).

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include $35,051,000 (2003 – $41,322,000) in treasury bills earning an average effective interest rate of 2.6% (2003 – 2.8%).

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2004	2003
Financed premiums receivable	$ 95,597	$ 83,911
Motor vehicles driver receivable	1,330	1,763
Due from Saskatchewan Finance	3,107	2,112
Accrued investment income	6,303	6,632
Licence issuers receivable	3,089	2,864
Amount recoverable on paid claims	6,039	1,901
Due from SGI CANADA	1,761	2,538
Other	642	190
Total accounts receivable	$ 121,126	$ 107,311

5. INVESTMENTS

The carrying value and fair value of the Auto Fund's investments are as follows:

	(thousands of $)			
	2004		2003	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	$ 19,690	$ 19,690	$ 38,643	$ 38,643
Bonds and debentures	603,573	615,015	492,625	504,111
Pooled equity fund	11,473	16,642	12,461	12,722
Canadian common shares	112,086	155,738	102,903	110,837
U.S. common shares	43,467	52,520	42,098	47,555
Mortgages	50,279	52,770	46,815	48,996
Income producing property	9,077	9,408	9,307	9,408
	882,645	951,783	771,852	832,302
Investment in SGI CANADA Insurance Services Ltd. (SCISL)	–	–	564	564
Total investments	$ 882,645	$ 951,783	$ 772,416	$ 832,866

Details of significant terms and conditions, exposures to interest rate and credit risks on investments are as follows:

(i) Short-term investments:
Short-term investments are comprised of treasury bills with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 2.6% (2003 – 2.9%) and an average remaining term to maturity of 91 days (2003 – 170 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Carrying amounts for short-term investments approximate fair value due to the immediate or short-term nature of these financial instruments.

(ii) Bonds and debentures:
The Auto Fund's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Auto Fund's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

(thousands of $)

	2004		2003	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
After one through five	$ 263,679	4.1%	$ 205,197	4.6%
After five	82,383	4.7%	65,920	5.7%
Canadian provincial & municipal:				
After one through five	52,078	5.2%	11,787	6.0%
After five	62,976	5.6%	29,907	5.8%
Canadian corporate:				
One or less	–	–	2,230	6.3%
After one through five	106,479	4.9%	112,814	5.6%
After five	35,978	5.9%	34,680	6.9%
Total bonds & debentures	$ 603,573		$ 492,625	

For bonds and debentures, the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(iii) Pooled equity fund:
The Auto Fund owns units in a non-North American pooled equity fund that has no fixed interest rate. Its returns are based on the success of the fund manager.

The fair value of the pooled equity fund is considered to approximate the quoted market values of the underlying investments, based on the latest bid price.

(iv) Common shares:
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 1.8% (2003 – 1.8%).

The Auto Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Auto Fund's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

The fair value of common shares are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(v) Mortgages:
The mortgage portfolio consists entirely of Canadian commercial mortgages with an average effective interest rate of 7.0% (2003 – 7.1%) with an average maturity of 3.7 years (2003 – 4.6 years). Principal and interest is receivable on a monthly basis.

The Auto Fund's investment policy limits the maximum aggregate amount of mortgage loans to 20% of the total mortgage portfolio to any one borrower.

For mortgages, the fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(vi) Income producing property:
The income producing property consists of land and buildings with costs of $1,451,000 (2003 – $1,451,000) and $8,593,000 (2003 – $8,575,000) respectively and accumulated amortization of $968,000 (2003 – $719,000).

(vii) Investment in SCISL:
Effective Jan. 1, 2004, the Auto Fund sold its shares in SCISL to SGI CANADA for cash consideration of $997,000. The difference of $434,000 between this cash consideration and the carrying value of $563,000 is an adjustment to the Rate Stabilization Reserve.

6. NET INVESTMENT IN CAPITAL LEASES

The net investment in capital leases represents those leases which transfer substantially all of the benefits and risks associated with the ownership of the property to the lessee.

The Auto Fund's total net investment in the capital leases includes the following:

	(thousands of $)	
	2004	2003
Total minimum lease payments receivable ($995,000 per year)	$ 6,215	$ 7,228
Unearned income	(1,610)	(2,100)
Net investment in capital leases	$ 4,605	$ 5,128

A lease that had outstanding lease payments receivable of $113,000 at the end of 2003 expired early in 2004. The Auto Fund's remaining capital lease is a 63% interest in a lease agreement with Saskatchewan Property Management Corporation, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan.

The fair value of the net investment in capital leases is $5,113,000 (2003 – $6,358,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

7. PROPERTY, PLANT AND EQUIPMENT

The components of the Auto Fund's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	(thousands of $)			
	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 6,979	$ –	$ 6,979	$ 7,112
Buildings and improvements	42,138	13,175	28,963	29,912
Computer hardware, system costs and other equipment	28,311	25,644	2,667	2,900
Total	$ 77,728	$ 39,119	$ 38,609	$ 39,924

Amortization for the year is $2,825,000 (2003 – $3,373,000).

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Auto Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the date of the statement of financial position.

Factors used to estimate the provision include: the Auto Fund's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as damage claims tend to be more reasonably predictable than long-tail claims such as long-term disability and liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

The Auto Fund settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Auto Fund provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the statement of financial position date total $24,539,000 ($2003 – $24,562,000).

Included in the provision for unpaid claims are discounted amounts for certain injury accident benefits in the amount of $341,399,000 ($2003 – $347,352,000). These claims have been discounted using a rate of 2.5% to 6% to take into account the time value of money and also include a provision for adverse development.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of $)	
	2004	2003
Net unpaid claims – beginning of year	$ 711,510	$665,522
Payments made during the year relating to prior year claims	(142,515)	(129,438)
Excess relating to prior year estimated unpaid claims	(64,047)	(27,024)
Net unpaid for claims of prior years	504,948	509,060
Provision for claims occurring in the current year	180,370	202,450
Net unpaid claims – end of year	$685,318	$ 711,510

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability.

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by type of claim as follows:

	(thousands of $)	
	2004	2003
Injury accident benefits	$ 530,302	$ 529,529
Injury liability	91,670	113,703
Damage	63,346	68,278
Total	$ 685,318	$ 711,510

9. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2004	2003
Income from interest	$ 28,781	$ 26,828
Realized gains on sale of investments	35,248	9,533
Income from dividends	3,486	3,807
Income from income producing property, net of operating costs of $932,000 (2003 – $803,000)	845	1,118
Income from capital leases	190	544
Investment write downs	(5,306)	(2,701)
Total investment earnings	$ 63,244	$ 39,129

Cash inflows from the income producing property are $1,091,000 (2003 – $1,283,000).

Investment write downs by category are as follows:

	(thousands of $)	
	2004	2003
United States common shares	$ (947)	$ (918)
Canadian common shares	(4,359)	(729)
Bonds and debentures	–	(602)
Mortgages and income producing property	–	(452)
Total investment write downs	$ (5,306)	$ (2,701)

10. OTHER INCOME

The components of other income are as follows:

	(thousands of $)	
	2004	2003
Net earnings on salvage sales	$ 6,849	$ 5,663
Payment option fees	13,987	13,093
Gain on disposal of property, plant & equipment	687	–
Total other income	$ 21,523	$ 18,756

The Auto Fund operates a salvage division in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process. Total salvage sales in 2004 are $26,151,000 (2003 – $25,715,000).

The Auto Fund offers a Short-Term Vehicle Registration and Insurance Plan which allows customers to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows customers to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance. The fees charged for the payment options are included in other income.

11. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2004	2003
Accounts receivable	$ (14,112)	$ (5,242)
Deferred policy acquisition costs	(1,963)	(1,202)
Prepaid expenses and inventories	677	(1,296)
Accounts payable and accrued charges	(230)	911
Premium taxes payable	1,676	271
Unearned premiums	12,586	9,125
Provision for unpaid claims	(26,192)	15,988
	$ (26,713)	$ 18,564

12. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Auto Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions and amounts outstanding at year end are as follows:

	(thousands of $)	
Category	2004	2003
Accounts receivable	$ 3,260	$ 2,233
Deferred policy acquisition costs	11,654	11,013
Investments	9,012	9,112
Accounts payable and accrued charges	165	176
Premium taxes payable	26,359	24,683
Provision for unpaid claims	111	184
Unearned premiums	2,853	2,792
Premiums written	6,469	6,275
Premiums earned	6,312	6,170
Investment earnings	580	455
Claims incurred	22,031	22,628
Premium taxes	25,718	24,271
Administrative expenses	1,779	1,950
Traffic safety programs	2,344	2,310

Saskatchewan Government Insurance (SGI) acts as administrator of the Auto Fund. Administrative and claim adjustment expenses incurred by SGI are allocated to the Auto Fund and SGI directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Auto Fund were $73,303,000 (2003 – $75,678,000) and accounts receivable are $1,764,000 (2003 – $2,541,000).

Other related party transactions are described separately in the notes.

13. FAIR VALUES

The fair value of financial assets and liabilities, other than investments (note 5), net investment in capital leases (note 6) and unpaid claims (note 8) approximate fair value due to their immediate or short-term nature.

14. COMMITMENTS

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile accidents. The following is the funding anticipated to be provided over the next five years:

	(thousands of $)
2005	$19,130
2006	$16,361
2007	$10,500
2008	$10,500
2009	$10,500

15. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2003 balances have been reclassified to conform to 2004 financial statement presentation.

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